

# Power Finance & Risk

The weekly issue from **Power Intelligence**

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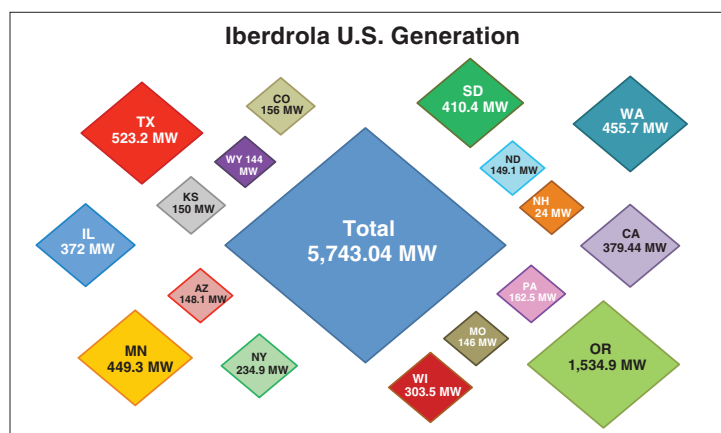
## Iberdrola Puts Wind, Solar On The Block

**Iberdrola Renewables** is looking to sell a smorgasbord of assets ranging from half contracted wind farms to wind and solar development assets.

The company is selling two wind farms in Texas that are half contracted, according to an industry official who has seen the teaser from **JPMorgan** and **Blackstone**. The third farm is said to be in Ohio.

Additionally, Iberdrola is selling 3.8 GW of wind development assets as well as 115 MW of solar development assets, according to the official. The location of the wind and solar projects were not immediately learned and the teaser wasn't ascertained.

(continued on page 12)



Source: Power Intelligence via Iberdrola Renewables

## LS Power Stalks Calif. Solar Debt

LS Power is talking to banks for a \$400 million financing backing a roughly 100 MW solar photovoltaic project in California. The deal is slated to close in the fourth quarter.

Further details could not be ascertained, but according to the LS Web site, its sole California solar project is Centinela, a planned 125 MW facility in Calexico. **San Diego Gas & Electric** has a 20-year offtake contract for the project, which is slated for operation in 2014. **Joe Esteves**, LS cfo based in New York, did

(continued on page 12)

## Distressed Players Scope Terra-Gen Geo Unit

Distressed buyers are watching the debt on **Terra-Gen Power's Coso Geothermal Power Holdings** subsidiary.

The unit has a 302 MW portfolio with three facilities—the 100 MW BLM, the 102 MW Navy 1 and the 100 MW Navy II—in Inyo County, Calif., and has \$523 million outstanding on \$629 million of pass-through certificates. The paper was issued when **MetLife** entered into a sale leaseback as the lessor of the Coso facilities in December 2007. The notes mature in 2026.

Coso is facing a string of financial and operational challenges in the next six months and in the coming years. The trio of interlinked geothermal facilities has had lower cash flows than expected because of lower production. The wells have not generated as much power and initiatives to stem declining production such as water injections have not had concrete results.

(continued on page 12)

### THE BUZZ

**D**istressed debt players have had a multitude of assets to browse in the last year as gas- and coal-fired plants have hit the block and there's more to come.

For PI's take on this story and the market, see page 2.

### Industry Current: Solar Financing War Stories

Check out what solar executives have to say about their experiences with project financing.



See story, page 9

### New Project Finance Loans

We've added updates to our weekly round-up of the latest project finance deals in the Americas, with details on projects, sponsors and debt.

See Deal Book, page 4

### Generation Sale ■ DATABASE

Get the rundown on the latest asset trades in PI's weekly calendar, compiled from our exclusive Generation Sale Database.

See calendar, page 3

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## THE BUZZ

**B**atesville, AES Eastern Energy and solar development projects primarily from **Solar Trust of America** have landed in restructuring or bankruptcy. **Terra-Gen Power's** Coso facilities are among the first geothermal assets to teeter on the edge of default although it's not a stretch of any imagination given the innate risks of extracting a resource from deep below the Earth's surface. Distressed debt players have been scoping the 300 MW portfolio in California as the facilities flirt with a default brought on by lower than expected cashflows. The situation typifies why geothermal is regarded with caution: it's difficult to boost production from wells that come up with less production capacity than projected.

**Iberdrola Renewables** is taking a fleet of renewables assets to the market at the behest of its Madrid parent **Iberdrola**, marking the start of one of the largest renewables auctions to hit the street in recent years. Prospective buyers will assess the portfolio of 700 MW of spinning, half-contracted wind farms and nearly 4 GW of wind and 115 MW of solar development assets. **Exelon's** purchase of **John Deere Renewables** in 2010 is the most recent trade of a full size platform.

Project finance deal flow has been slowing to a trickle as renewable projects face the cliff of expiring tax credits. Low natural gas prices and emissions regulations are stunting thermal project development in the U.S. And, while many banks are constrained by the effects of the crises in Europe, the shops that are still looking to keep an oar in the water are sticking close to relationship clients like **LS Power**. Working with the New York-based company, which wrapped a dividend recap backing a portfolio of seven plants, is enticing to banks not only because of its record as a sponsor but also because of its steady pipeline of deals. Despite the summer season, when the market typically quiets down as decision makers take time off, LS Power is putting its next target in the cross hairs: a financing for more than 100 MW of solar in project in California.

Emission's regulations are providing at least one bright spot for developers as utilities look to find replacements for retiring coal-fired baseload generation. More than 1.6 GW of coal-fired plants have been retired the first five months of the year, according to the U.S. **Energy Information Administration**. **Indianapolis Power & Light** is looking for 600 MW of gas-fired generation to replace a pair of coal-fired plants that are slated for retirement. Indiana led the country in retirements according to the EIA, with 600 MW of coal shuttered between January and May.

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## GENERATION AUCTION &amp; SALE CALENDAR

These are the current live generation asset sales and auctions, according to *Power Intelligence's* database. A full listing of completed sales for the last 10 years is available at [www.powerintelligence.com/AuctionSalesData.html](http://www.powerintelligence.com/AuctionSalesData.html)

Seller	Assets	Location	Advisor	Status/Comments
Alcoa	Calderwood (140.4 MW Hydro) Cheoah (118 MW Hydro) Chilhowee (52.2 MW Hydro) Santeetlah (40.4 MW Hydro)	Little Tennessee River, Tenn. Little Tennessee River, N.C. Little Tennessee River, Tenn. Cheoah River, N.C.	JPMorgan	Brookfield Renewables is buying them for \$600M (PI, 7/9).
Apex Wind Energy	Canadian Hills (298 MW Wind)	Oklahoma City, Okla.	TBA	Atlantic Power has issued shares, debentures to fund purchase (PI, 7/9).
BVP Property	Big Valley (7.5 MW Biomass or development)	Bieber, Calif.	Barrier Advisors	NexBank foreclosed on the asset in Q1 and is looking to sell it (PI, 5/21).
Capital Power	Miller Creek (33 MW Hydro) Brown Lake (7.2 MW Hydro)	British Columbia British Columbia	CIBC	Innergex is buying the facilities although BC Hydro has first refusal rights for Miller Creek (PI, 6/25).
Cleco Evangeline	Coughlin (775 MW Gas-fired)	St. Landry, La.	TBA	Cleco Power is considering buy the facility in a request for proposals it will release this summer (PI, 6/18).
Duke Energy	Various (7.5 GW Coal, Gas, Oil)	Ill., Ohio, Pa.	TBA	Informally talking with prospective advisors about its unregulated fleet (PI, 7/9).
Edison Mission Group	Homer City (1.884 GW Coal)	Homer City, Pa.	Barclays	Looking to exit the facility as its lessee (PI, 3/12).
Exelon	Brandon Shores (1,273 MW Coal) H.A. Wagner (976 MW Coal) C.P. Crane (399 MW Coal)	Anne Arundel Co., Md. Anne Arundel Co., Md. Baltimore Co., Md.	Citigroup, Goldman Sachs	Second round set for July 19 (PI, 7/3).
First Reserve, CalSTRS, Abu Dhabi Investment Authority	Stakes (146 MW Landfill Gas-to-Energy)	Various	TBA	IPP is buying out the investor's stakes (PI, 7/3).
GSO Capital, Starwood Energy, Tyr Energy	Vaca Dixon (49 MW Peaker) Panoche (49 MW Peaker) Border (49 MW) Enterprise (49 MW)	Vacaville, Calif. Firebaugh, Calif. San Diego, Calif. Escondido	Scotiabank	The portfolio sale will launch soon (PI, 5/28).
GSO Capital, Strategic Value Partners	San Joaquin (48 MW)	Lathrop, Calif.		San Joaquin, from Bicent, is part of the CalPeak sale (PI, 7/3).
Gamesa Energy USA	Pocahontas (80 MW Wind) Sandy Ridge (50 MW Wind) Senate (150 MW Wind) Minonk (200 MW Wind)	Pocahontas County, Iowa Blair County, Pa. Texas Illinois	JPMorgan	Algonquin Power & Utilities a controlling interest in the four projects.
Harbert Power	Hanford (95 MW Gas-fired) Henrietta (97 MW Gas-fired) Tracy (314 MW Gas-fired)	Kings County, Calif. Kings County, Calif. Stockton, Calif.	Morgan Stanley, Merit Capital Advisors	July 13 pegged for first round bids (PI, 7/3).
IPR-GDF Suez Energy North America	Various (287 MW Wind)	Various, Canada	CIBC	GDF has tagged CIBC on the sale (PI, 6/25).
Iberdrola Renewables	Various (2.5 GW Wind)	Various	JPMorgan, Blackstone	The Spain-based parent is driving the sale of roughly half the U.S. wind fleet (see story, page 1).
Iberdrola Renewables	Klamath (636 MW CoGen)	Klamath Falls, Ore.	Royal Bank of Canada	First round bids are in (PI, 6/4).
LS Power	Blythe (507 MW CCGT)	Blythe, Calif.	Credit Suisse	LS is looking to flip the plant it bought in a portfolio in the fall (PI, 4/16).
LS Power	Bluegrass (495 MW Gas Simple Cycle)	LaGrange, Ken.	TBA	Kentucky Utilities, LG&E cease the process to buy (PI, 7/3).
Luminus Management, CarVal Investors, Fortress Investment Group	Bosque (507 MW Gas)	Laguna Park, Texas	Bank of America	Bidders are in due diligence (PI, 6/18).
MACH Gen	Harquahala (1 GW Gas)	Maricopa County, Ariz.	Goldman Sachs	The facility has drawn utility eyes (see story, page 7).
NRG Solar	CVSR (250 MW Solar PV)	San Luis Obispo County, Calif.	Credit Suisse, Morgan Stanley	NRG is out talking to potential investors (PI, 3/5).
Olympus Power, Metalmark Capital	Brooklyn Navy Yard (Stake, 286 MW Gas-fired)	Brooklyn, N.Y.	Credit Suisse	Second round has kicked off (PI, 7/9).
Recurrent Energy	Various ( 100 MW Solar PV)	Ontario	None	PI, 6/25).
RES Americas	Various (Wind development assets)	North Dakota	None	Has had informal talks with a prospective buyer (see story, page 8).
Solar Trust of America	Blythe (1 GW Solar PV) Palen (500 MW Solar PV) Amargosa (500 MW Solar PV) Ridgecrest (250 MW Solar PV)	Blythe, Calif. Desert Center, Calif. Amargosa, Nev. Ridgecrest, Calif.	RPA Advisors Marathon Capital	BrightSource, NextEra each net projects (PI, 7/3).
Starwood Energy	Neptune (65-mile Transmission)	Sayreville, N.J. to Long Island, N.Y.	Barclays	Recently hired Barclays to run the sale (PI, 6/11).
Tenaska Solar Ventures	Imperial Solar Energy Center South (130 MW Solar PV)	Imperial County, Calif	Royal Bank of Canada	Tenaska is looking to bring in a minority owner that has tax appetite (PI, 6/4).
Wind Capital Group	Various (1.3 GW Wind development)	Various	Energy Advisory Partners	Put the pipeline on the block as a way to raise capital (PI, 5/7).

## ► New or updated listing

The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed. To report updates or provide additional information on the status of financings, please call Senior Reporter **Holly Fletcher** at (212) 224-3293 or e-mail [hffletcher@iintelligence.com](mailto:hffletcher@iintelligence.com).

## PROJECT FINANCE DEAL BOOK

Deal Book is a matrix of energy project finance deals that *Power Intelligence* is tracking in the energy sector. A full listing of deals for the last several years is available at <http://www.powerintelligence.com/projectfinancedeal.html>

## Live Deals: Americas

Sponsor	Project	Location	Lead(s)	Loan	Loan Amount	Tenor	Notes
AES Gener	Cochrane (532 MW Coal)	Chile	TBA	TBA	\$1B	TBA	Sponsor taps HSBC as financial advisor ahead of deal and eyes equity (PI, 6/11).
	Alta Maipo (531 MW Hydro)	Chile	TBA	TBA	TBA	TBA	IFC, IDB and OPIC are participating in multilateral tranche. Sponsor also talking to commercial lenders (PI, 7/2).
AES Solar, 8minutenergy Renewables	Mount Signal (200 MW Solar PV)	Imperial Valley, Calif.	TBA	TBA	\$700M	TBA	Mandates expected soon (PI, 5/21).
BP, Sempra	Flat Ridge 2 (419 MW Wind)	Wichita, Kan.	TBA	TBA	TBA	TBA	Lenders submit financing proposals to sponsors (PI, 6/4).
	Mehoopany (141 MW Wind)	Wyoming County, Penn.	BTMU, CoBank, Mizuho	TBA	\$200M	18-yr	Pricing, tenor emerge (PI, 4/16).
Cape Wind Associates	Cape Wind (420 MW Wind)	Nantucket Sound,	Barclays	TBA	TBA	TBA	Financing to be re-ignited (PI, 4/16).
Cheniere Energy	Unidentified (Export LNG Facility)	Sabine Pass, La.	Agricole, BTMU, Credit Suisse, HSBC, JPMorgan, Morgan Stanley, RBC, SocGen	Mini-Perm	\$3.2B	7-yr	Sponsor seeks second tier of lenders (PI, 5/7).
Cogentrix	Portsmouth (110 MW Coal)	Portsmouth, Va.	RBC, Scotia	Refi	\$120M	5-yr	Sponsor tags RBC to lead refi, with Scotia as co-lead (PI, 5/7).
Competitive Power Ventures	St. Charles (650 MW Gas)	Charles County, Md.	TBA	TBA	\$500M		Sponsor talking with banks for a club deal (PI, 7/9).
Dalkia Canada, Fengate Capital	Ft. St. James (33 MW Biomass)	Ft. St. James, B.C.	TBA	TBA	TBA	TBA	Sponsors seek roughly \$175 million financing for project (PI, 3/26).
	Merritt (33 MW Biomass)	Merritt, B.C.	TBA	TBA	TBA	TBA	Sponsors seek roughly \$175 million financing for project (PI, 3/26).
Diamond Generating Corp.	Mariposa (200 MW Gas)	Alameda County, Calif.	SMBC, DZ, CoBank, Sumitomo Trust	TBA	\$150M	10-yr	Sponsor mandates four lenders (PI, 5/14).
Duke Energy Renewables	Los Vientos (402 MW Wind)	Willacy County, Texas	TBA	TBA	TBA	TBA	Sponsor circles \$220 million NADB tranche (PI, 5/28).
Finavera Wind Energy	Wildmare (77 MW Wind)	Peace River, B.C.	TBA	TBA	\$160M	TBA	Sponsor targets financing, likely from life insurance companies (PI, 4/2).
GCL Solar	Various (77 MW PV)	Puerto Rico	Union Bank, WestLB	TBA	\$200M	TBA	Deal to wrap this week (PI, 5/28).
Inkia Energy	Unidentified (500 MW Hydro)	Cerro del Aguila, Peru	BBVA, Crédit Agricole, HSBC, Scotia, SocGen, SMBC	TBA	\$600M	12-yr	A dozen lenders expected to make commitments (PI, 4/30).
InterGen	Unidentified (Gas Pipeline)	Zacatecas, Mexico	TBA	TBA	\$200M	TBA	Sponsor considering club deal (PI, 6/11).
▶ LS Power	Unidentified (100 MW Solar)	California	TBA	TBA	\$100M	TBA	Sponsor seeking funding (see story, page 1).
▶ LSP Madison	Doswell (879 MW Gas)	Ashland, Va	Credit Suisse, Morgan Stanley, Citigroup	Refi/Term	\$750M	7-yr	Deal closed at 450 bps over LIBOR with a LIBOR floor of 125 bps (see story, page 5).
	Riverside (500 MW Gas)	Louisa, Ky.					
	Blythe (507 MW Gas)	Blythe, Calif.					
	Cherokee (98 MW Gas)	Gaffney, S.C.					
	Safe Harbor (421 MW Hydro)	Conestoga, Pa.					
	Wallingford (225 MW Gas)	Wallingford, Conn.					
	University Park North (540 MW Gas)	University Park, Ill.					
	University Park South (300 MW Gas)	University Park, Ill.					
▶ Odebrecht	Chaglia (406 MW Hydro)	Peru	BNP Paribas	Term	\$650M	17.5-yr, 20-yr	Pricing set at roughly 350 over LIBOR (PI, 7/9).
▶ Panda Energy	Temple (600 MW Gas)	Temple, Texas	TBA	TBA	\$1.2B	TBA	Sponsor says details will emerge shortly (see story, page 6).
Pattern Energy	Ocotillo (315 MW Wind)	Imperial Valley, Calif.	TBA	Mini-Perm	\$400M	C+ 7-yr	Sponsor targets \$400 million financing; 10 lenders eye deal (PI, 5/14).
Ridgeline Energy	Meadow Creek (120 MW Wind)	Bonneville County, Idaho	TBA	TBA	\$180-200M	TBA	Sponsor discusses financing with lenders, equity with Diamond Generating Corp. (PI, 5/28).
Rockland Capital, Broadway Electric Co.	Mass Solar (Solar PV)	Massachusetts	TBA	TBA	\$200M	TBA	Sponsors talking to four lenders about financing (PI, 5/14).
Sempra U.S. Gas & Power	Copper Mountain 2 (92 MW PV)	Boulder City, Nev.	TBA	TBA	\$130M	18-yr	Deal wraps, priced at LIBOR + 250 bps (PI, 7/2).

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## PROJECT FINANCE

## IP&L Hunts For 600 MW Of Gas

**Indianapolis Power & Light Company** is issuing a request for proposals for 600 MW of gas-fired base load and peaking capacity. A notice of intent to respond is due July 23 and bids must be submitted on or before Sept. 10.

Projects must be in operation by June 2017 and dispatchable to the Midwest Independent System Operator. Winning projects must have an operating life of at least 20 years and are eligible for power purchase agreements, tolling agreements or purchase and sale agreements.

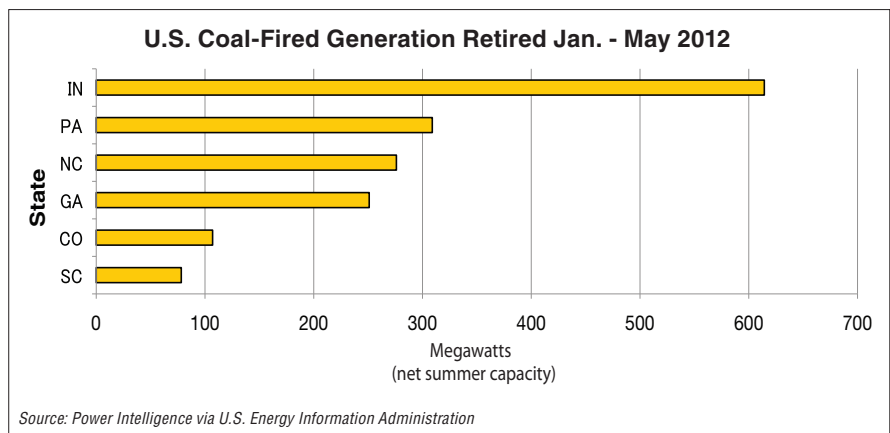
IP&L also requires credit support and security deposits that will provide protection against the bidder breaching or failing to perform under any contract arising from the RFP. The amount of security and credit required for each bid will vary based on respondent's credit quality and tangible net worth.

The bids will be evaluated against a 600 MW natural gas-fired combined cycle unit proposed by IP&L in the Central Indianapolis area. **Burns & McDonnell**, a consulting firm based in Kansas City, Mo., is the independent evaluator for the RFP process. B&M will assess the proposals and create a short-list, which will then be forwarded to IP&L for final evaluation. A spokesperson for IP&L and an

official at B&M did not respond to inquiries by press time.

**enXco's** 205.5 MW Lakefield wind project in Jackson County, Minn., won IPL's renewable RFP in 2009 ([PI, 5/16](#)).

The RFP is intended to provide IP&L with options to replace coal-fired generation at the 341 MW Eagle Valley and 1,196 MW Harding Street stations, in Martinsville, Ind., and Indianapolis, respectively, which are slated for retirement. The RFP and the retirement of coal-fired stations over the next few years are in response to current and expected emissions regulations.



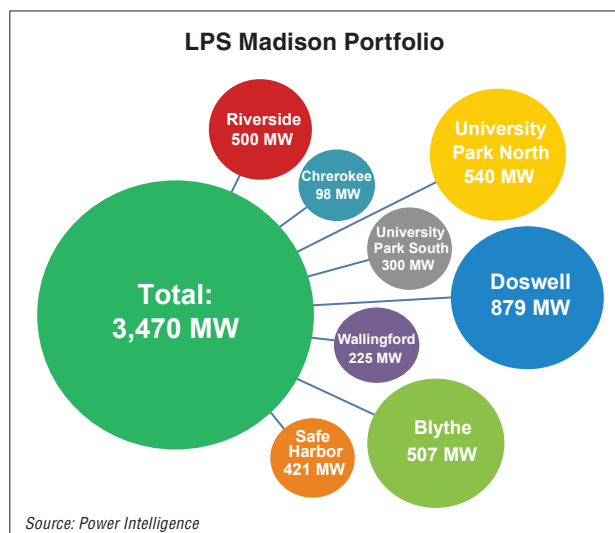
## LS Power Seals Dividend Recap

LS Power has closed a \$750 million secured term loan that will go toward a one-time dividend and a refinancing of a seven-plant portfolio. **Credit Suisse, Morgan Stanley** and **Citigroup** are co-leads on the seven-year deal that was borrowed under affiliate LSP Madison and closed late last month. **American Money Management** in Cincinnati and **Kingsland Capital Management** in New York participated in the deal.

Pricing is 450 basis points over LIBOR with a LIBOR floor of 125 bps and an original issue discount of 97.5. The OID had been 98.5 when the deal launched ([PI, 6/18](#)). Why the OID was adjusted could not be learned. Bank officials and **Joe Esteves**, cfo of LS Power in New York, did not return calls. The loan includes a call protection of 102, 101 and 100. About \$400 million of the proceeds will go toward the dividend and the remainder will go toward the plants owned by **LS Power Equity II**.

Plants in the portfolio include the:

- 879 MW natural gas-fired Doswell plant in Ashland, Va.
- 500 MW natural gas-fired Riverside plant near Louisa, Ky.
- 507 MW natural gas-fired Blythe in Blythe, Calif.



- 98 MW natural gas-fired Cherokee in Gaffney, S.C.
- 421 MW Safe Harbor hydro plant in Conestoga, Pa.
- 225 MW Wallingford gas-fired peaker in Wallingford, Conn., and the
- 540 MW gas-fired peaker University Park North and the 300 MW gas-fired peaker University Park South in University Park, Ill.

Doswell, Riverside, Safe Harbor and the University Park plants have existing project level debt and Doswell and Blythe have \$139 million and \$250 million,

respectively, of senior level debt. There is about \$223 of debt per kW. **Standard & Poor's** assigns a preliminary BB+ rating to the deal.



## NextEra, JPM Hook Up For Tax Equity

**NextEra Energy Resources** has tapped **JPMorgan Capital Corp.** for a tax equity investment in a wind project in Texas.

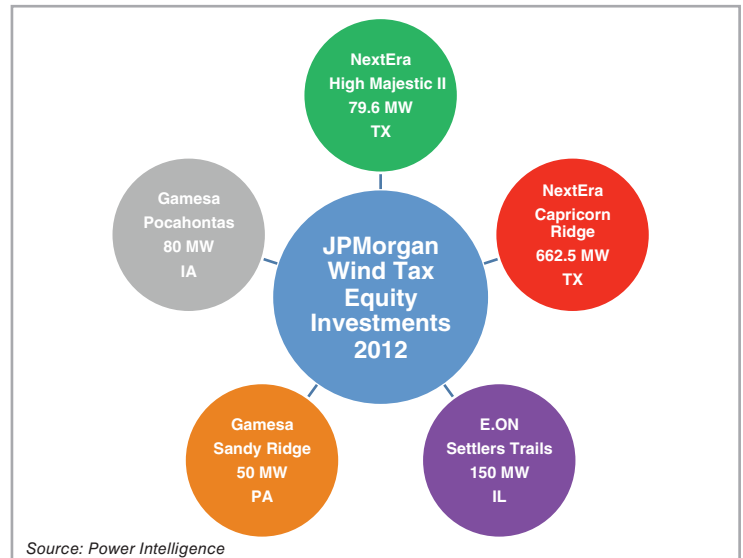
JPMCC will take the full tax equity stake in the 79.6 MW High Majestic II project in Carson County, Texas when it goes online, which could be as early as this week. Construction started on the \$160 million project in April.

The duo are frequent tax equity partners and JPMCC committed last fall to a making a tax equity investment in three NextEra wind farms totaling 205 MW ([PI, 11/15](#)). It's unlikely they had a forward agreement encompassing the High Majestic II project though because investors typically shy away from committing tax equity dollars beyond the calendar year, says an industry official.

High Majestic II is the second phase of the near-by 79.5 MW High Majestic farm, neé Majestic, that NextEra bought from **Babcock & Brown** ([PI, 9/11/09](#)). High Majestic II has a 20-year power purchase agreement with **AEP Southwestern Electric Power**.

The size of the cash investment could not be learned. A

NextEra spokesman in Juno Beach, Fla., did not return a call and a JPMorgan spokeswoman declined to comment.



## Panda Floats \$305M Merchant Package

**Panda Energy** is looking for \$305 million in senior secured loans to fund construction of a 758 MW natural gas-fired facility in Temple, Texas. The deal launched earlier this month.

The package includes a \$214.84 million first lien term loan A, \$75 million term loan B, a \$10.16 million letter of credit facility, and \$5 million working capital facility. **Standard & Poor's** assigns a preliminary B+ rating and '2' recovery rating. The stable outlook on the debt rating reflects predicted steady cash flow through 2018. "Generally there is interest in this space in the ERCOT region following last summer's performance," says **Manish Consul**, analyst at S&P in New York. The main risk to the project is its exposure to merchant energy markets and limited refinancing risk, he says. The initial debt represents a price of about \$400 per kW.

**Bill Pentak**, v.p. of investor relations and public affairs at Panda

in Dallas, declined to comment on the deal until it has wrapped. Details such as pricing and tenor could not be learned.

Four lenders are reportedly working on the A tranche, which would include a hedge that mitigates the merchant risk for lenders. **Ares Management** is providing mezzanine debt ([PI 5/25](#)). Panda started seeking financing last year for the plant, which represents the first phase of a 1.5 GW combined-cycle plant ([PI 5/20/11](#)). A spokesperson for Ares in New York did not respond to calls or email.

Financiers have been skeptical of the project given the merchant element. However, investor interest in the ERCOT region is strong following reports of a predicted power shortage in 2016 and the recognition that power prices set by the Texas **Public Utilities Commission** may rise to encourage power project development after last summer's rolling blackouts.

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## MERGERS &amp; ACQUISITIONS

## Harquahala Draws Utility Eyes

The second round process for **MACH Gen's** 1 GW combined cycle plant in Arizona has elicited the most interest from regulated utilities in the state. Utilities such as **Arizona Public Service**, **Salt River Project** and **Tucson Electric Power** have cased the 1 GW Harquahala facility in Maricopa County, say officials.

The utilities do not need power for imminent load growth and are looking at the facility as a potential way to meet demand down the



road. The process is in the second round of due diligence although a timeline for when bids are due could not be learned.

A handful of investment shops

considered the asset, too, although appetite was tempered by its merchant status. **Wayzata Investment Group** took on merchant risk with its acquisition of two units at **Entegra Power Group's** 2.2 GW Gila River plant, but most buyers want a seasonal or tolling agreement ([PI, 6/10/11](#)). One shop is said to have had preliminary discussions about the possibility of lining up a hedge or seasonal

agreement. The identity of those interested could not be learned.

Salt River has no plans to buy the facility or provide a PPA, says a spokeswoman.

Whether MACH Gen will choose to sell the plant to a utility is undetermined, says one official, explaining that the shop, owned by investment shops, had wanted to turn a sale around this year and a regulatory process might prove too lengthy.

Owners of MACH Gen include affiliates of **Rockland Power Partners**, **Merrill Lynch** and **Credit Suisse Energy**. Several hedge funds have also had stakes in MACH Gen, including **Solus Alternative Asset Management**, **Strategic Value Partners**, **Värde Partners** and **Willow Bend Capital Management** ([PI, 10/29/09](#)).

**Goldman Sachs** is running the sale ([PI, 5/18](#)). MACH Gen also owns the 930 MW New Athens CCGT in Athens, N.Y., and the 326 MW Millennium CCGT in Charlton, Mass. The other two plants are not being sold at this time.

Calls to Rockland Capital officials in Dallas were not immediately returned and a Goldman spokesman was not available for comment. An APS spokeswoman could not immediately comment while a Tucson Electric spokesperson was not immediately available.



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## RES Scopes N.D. Wind Sale

**RES Americas** has been talking with prospective buyers about selling wind projects in the Midwest. The company is interested in selling a couple of assets in North Dakota, says a deal watcher. The talks are on-going and RES is not using a financial advisor.

A strategic as well as an investor-owned developer have shown interest, deal watchers say. RES had been developing the 400 MW Glacier Ridge project in Barnes County. Whether that project is still in the works or included in the talks could not be learned.

RES has been selling projects as it shifts from a development and EPC business model to being primarily an EPC. RES has had several departures from its financial team ([PI, 11/16/10](#)). Richard Ashby, cfo, left in November 2010 and was replaced in June 2011 by Patrick Welch who left in March. Paul Walker recently took the cfo position after a stint at parent RES Group.



News In Brief is a summary of publicly reported power news stories. The information has been obtained from sources believed to be reliable, but **PFR** does not guarantee its completeness or accuracy.

- **Dominion Resources** started commercial service this week on its 585 MW Virginia City hybrid coal and biomass-fired plant in southwestern Virginia. After four years of construction Dominion said the \$1.8 billion project was built on schedule and within budget (*Reuters*, 7/12).

- Kansas will double its wind capacity this year to 2,660 MW from 21 wind farms, which Gov. **Sam Brownback** claims will help provide jobs and money to rural areas (*The Wichita Eagle*, 7/12).

- **Duke Energy Ohio**, a subsidiary of **Duke Energy Corp.**, has filed a request with the **Public Utilities Commission** of Ohio for an \$86.6 million increase in power rates, and a \$44.6 million increase in gas rates to implement in January 2013 (*Businessweek*, 7/11).

- **Banco Nacional de Desenvolvimento Econômico e Social** has frozen financing for wind turbines claiming equipment companies are not meeting the requirement of 40% of components to come from Brazilian suppliers. The move could force projects to halt development in 15-20 days (*Bloomberg*, 7/11).

- The Wisconsin **Public Utilities Commission** approved **Wisconsin Power & Light's** plan to build a 200 MW wind farm in southern Minnesota despite **The Citizens Utility Board** and **Wisconsin Industrial Energy Groups'** opposition. The farm will be north of Albert Lea (*Central Wisconsin Hub*, 7/11).



Sam Brownback

## PEOPLE & FIRMS

### BNP LatAm Head Exits

**Ralph Scholtz**, managing director and head of project finance Latin America at **BNP Paribas**, has resigned. He left July 10 and his responsibilities will likely be assumed internally, says a banker.

Scholtz reported to **Andrew Platt**, managing director and head of power M&A – North America, the banker adds. Platt has been tasked with working out a strategic plan for the bank's project finance business after the exit of **Brian Goldstein**, former head of project finance in the Americas ([PI, 5/1](#)). Prior to joining BNP circa 1996, Scholtz worked in project finance at **Crédit Lyonnais**.

BNP is working on a financing backing **Odebrecht's** \$1.2 billion, 406 MW Chaglia hydro project in Huánuco, Peru, along with **BBVA**, **DnB Nor**, **Société Générale** and **Sumitomo Mitsui Banking Corp.** ([PI, 7/6](#)).

## NEWS IN BRIEF

- **John McArthur**, **Mark Mulhern** and **Paula Sims**, three former **Progress Energy** officials who were to help **Bill Johnson** run the merged **Duke Energy**, resigned Tuesday a week after Johnson left the company. McArthur was executive v.p. for regulated utilities, Mulhern was executive v.p. and chief administrative officer, and Sims was chief integration and innovation officer (*WRAL*, 7/11).

- Nuclear power plants are costing more to build than a decade ago as construction costs, mundane glitches, and delays resulting in hundreds of millions to billions of dollars in charges. Three plants are underway in Georgia, Tennessee, and South Carolina (*The Herald*, 7/11).

- After power outages that left 911 emergency systems offline for three days in Fairfax County, Va., council members in both Virginia and Maryland purposed two bills to force **Pepco** to switch from above ground power lines to underground power lines (*The Washington Post*, 7/10).

- A joint venture between **GE**, Spanish firm **Duro Felguera S.A.**, and Argentinean firm **Fainser** were rewarded a turnkey contract for the 800 MW Vuelta de Obilgado combined-cycle power plant to be built on the same site as General San Martin Plant. The JV has 32 months to complete the project (*Power Engineering*, 7/9).

- **Enel Green Power North America** has begun operating the 150 MW Rocky Ridge wind farm in Kiowa and Washita counties in Oklahoma. The farm has 93 turbines of 1.6 MW each and sells power to **Western Farmers Electric Co-op** (*Power Engineering*, 7/9).



## INDUSTRY CURRENT

## War Stories: From The Solar Financial Front Lines — Part II

Last week, several solar company executives shared lessons learned from closing recent financings. This week in the roundtable organized and moderated by **Keith Martin**, partner at **Chadbourne & Parke** in Washington, D.C., they discuss federal programs, costs of capital and overcapacity.



Keith Martin

## Section 1603 Program

**Martin:** Ed Fenster, you have been dealing with the **Treasury Department** on cash grants. They are the basis for some of your financings. How has that experience been? Has it been what you expected?

**Fenster:** Yes. The Treasury Department is getting increasingly sophisticated in how to think about these transactions. We have now received a large number in grants, none of which has ever been adjusted, and we have a reasonably good ongoing dialogue with the Treasury. We have never submitted an appraisal that assumes an unrealistically low cost of capital. The Treasury sees such appraisals occasionally—for example, with a 6.5% capital cost assumption—and takes issue with them. I think the program has been working well. We have been able to submit applications 15 days after our rooftop systems are placed in service. As we move into 2012, I suspect there will be additional scrutiny of valuations in transactions involving related parties. The focus that the Treasury is putting on this is welcome and hopefully will lead to some sort of standardization inside the industry.



Michael Metzner

“Different projects vary within a range, but the cost of capital translates directly into the clearing price for power in these bidding processes. That is why it is so important to continue to find lower costs for capital to be competitive.”

—Michael Metzner

**Martin:** The Treasury posted to its Web site on June 30, 2011 benchmarks of \$4 to \$7 a watt indicating what it thinks are reasonable values for solar projects. Where you are on this range depends on the size of the project. The smaller projects are at the upper end of the range. In your experience, are the grants being paid today still within this range?

**Fenster:** Yes. We think we do well on those dimensions in the marketplace.

**Martin:** Michael Whalen, given that it took you two years to get through the U.S. **Department of Energy** loan guarantee process,

## THE PANELISTS WERE:

**André-Jacques Auberton-Hervé**, chairman and ceo of **Soitec**,  
**Edward Fenster**, ceo of **SunRun Homes**,  
**Matthew McGovern**, cfo of **Gerlicher Solar America Corp.**,  
**Michael Metzner**, cfo of **Recurrent Energy**, and  
**Michael Whalen**, cfo of **SolarReserve**.

was it worth it? If the program is renewed in the form of a clean energy bank by a new Congress, would you line up again for such financing?

**Whalen:** Our solar thermal projects in the United States tend to be concentrated in the western United States, so we must deal with

federal land issues as a matter of course. Therefore, some of the qualms that other developers may have had with entering into a federal process did not apply to us. We were already engaged in that process. Our site is on federal land. I think that it was

absolutely worth it. We were able to secure long-term financing at a price that is very beneficial for the project and ultimately for the ratepayers in Nevada. Our sense is that the outside world looks at the Department of Energy diligence and scrutiny as positive and as a sign of support for the technology.

## Cost Of Capital

**Martin:** How important is a low cost of capital? Is there a way to quantify how much a 100 basis point reduction in cost of capital reduces the electricity price you can offer?

**Metzner:** Every 100 basis point increase would add \$15 or so to the electricity price.

**Martin:** So a 100 basis point reduction in cost of capital means you can reduce the PPA price by \$15 a mwh.

**Metzner:** Roughly. Different projects vary within a range, but the cost of capital translates directly into the clearing price for power in these bidding processes. That is why it is so important to continue to find lower costs for capital to be competitive.

**Martin:** Financing is a search for lowest cost capital. CFOs draw capital from six different sources. The cheapest capital is a Treasury cash grant that covers 30% of the capital cost and is free money. Next cheapest is federally-guaranteed debt, then straight debt, then tax equity, then subordinated debt and then true equity. The government is pulling away the two cheapest tiers. The Treasury cash grants are phasing out, and government-guaranteed debt is largely gone except under a U.S. **Department of Agriculture** program for projects in rural areas and possibly guaranteed debt from export credit agencies.

What direction do you expect to move in your search for lowest cost capital now that the bottom two tiers are being pulled away?

**Whalen:** The lowest cost of capital is obviously one of the criteria that we look for, but we also take into account other things like how quickly we will be able to secure it and whether we are using the next financing as a launch pad to achieve other financings.

There will clearly be an impact in the cost of capital with the expiration of the section 1603 and 1705 programs. I am not sure I view the section 1603 program as free money. It is the cash equivalent of an investment tax credit that was already on the statute books. The government was concerned after the economy collapsed about the ability of developers to get value for the investment credit. I think to that extent it was extremely effective.

**Martin:** Let's assume the section 1603 program will not be extended. Where will you look to replace the capital in the two cheapest tiers?

**Metzner:** There are short-term and long-term answers to that question. Each answer is specific to the kind of developer you are, the technology you are using and your particular situation. It is hard to replace something like the Treasury cash grant. But the investment credit is still there. There is still a huge untapped amount of tax capacity that is on corporate balance sheets. I know that traditional tax equity providers like to say, "It's hard to unlock that," but it has never been easy to raise financing in this business and I think developers will have to try to unlock some of that.

**Martin:** So unlock additional tax capacity.

**Metzner:** Then there are production tax credits. Our friends in the wind market know that the production tax credit for wind is expiring, and there is tax capacity that is currently being absorbed by the wind market that might be freed up for solar.

**Martin:** So wind failure leads to tax equity bonanza for solar.



Michael Whalen

"I am surprised there has not been a combined debt-tax equity alignment."

—Michael Whalen

**Metzner:** Maybe there isn't a great replacement, so it just puts more pressure on having better projects: better quality PPAs, better quality construction and equipment contracts and essentially driving down the perception of risk among investors so that you can make up for that lost grant. I think that is really the long-run answer.

**Martin:** Let me reframe the question slightly. European banks are having capital adequacy problems. Many are withdrawing from the project finance market. What does one do in the face of this to find low cost capital?

**Fenster:** First, I would say we never found the DOE loan guarantee program to be a low cost form of capital.

Expiration of the grant program will push people to tax equity transactions using investment tax credits. We are already moving in that direction and have not necessarily seen any meaningful change in cost of capital.

The universe of buyers is slightly smaller. One new direction in which are moving is we are waist deep in an asset securitization program where we will be selling publicly-rated debt. That is a new source of capital that gets you out of the bank market. U.S. banks are not really equipped to hold assets for more than five to 10 years. The people who are more likely to do that buy publicly-traded bonds. Asset managers, pension funds and life insurance

companies, plus stripping the projects down to send the cash in that direction and the tax benefits in another direction are where I see the market headed over the next couple of years.

**Martin:** So ABS or securitization structures may be your future. Anybody else? Where else do you think you will look for low cost capital in the future?

**McGovern:** We will be trying to increase efficiency and strip out layers. In the past with the section 1603 program, you could draw capital from multiple sources. Now for us the Holy Grail is to find a participant who is all-in-one. It can take all the tax benefits and lend part of the capital cost or put in equity. That is the most efficient.

### Overcapacity

**Martin:** The current solar company earnings reports in *Photon*, a magazine that does a good job of covering the solar industry, make rather unsatisfying reading. Many of the large solar companies have been reporting disappointing earnings in the last few issues. Is this just a problem with equipment manufacturers with over capacity or does it also infect the developer side of the business? Are developers better off with the travails on the equipment manufacturing side?

**Whalen:** The real question is to whether there will be meaningful consolidation of manufacturers upstream. Some consolidation is already occurring, and you should begin to see that represented in

the profit and loss statements of the manufacturers. However, the real price setters in the market are the Chinese.

**Martin:** André Auberton-Hervé, do you feel this pressure to consolidate as a manufacturer?

**Auberton-Hervé:** I think there are two markets. There is one that is driven mainly by the policy in Europe. Eighty percent of PV is installed in regions where the sun is really not the strongest. There is a new market that is emerging, which is one of utility-scale projects in higher radiance areas. I have been in the industry for 30 years. It is a very dynamic one. The renewable energy today is moving geographically. Solar is moving south. Wind is moving north in Europe. I see two different markets, and one is in the sunbelt where people are investing in large-scale utility projects.



André-Jacques  
Auberton-Hervé

**Martin:** Ed Fenster, there is a trade complaint pending in the United States against Chinese solar cell manufacturers. There is a possibility of large duties being imposed retroactively up to 90 days before a preliminary determination. The first preliminary determination is due in late March. How is the threat of duties affecting financing?

**Fenster:** We were very concerned about this in December and ended up placing a large order with a Korean manufacturer as a hedge against it. What we have seen happen in the marketplace

is that the large Chinese manufacturers have developed enough capacity outside of mainland China that even if an enormous tariff is imposed, costs to purchase those panels may not go up by more than a few cents because the solar cells will just be resourced to Taiwan or Malaysia. It is an interesting process. Certainly, it is very important for a U.S. developer not to be the importer of record. I am not sure what the true economic incentive of the plaintiff was, but at this point, I do not see the threat of tariffs as a risk to U.S.

development.

**Martin:** Here is my final question. What do you feel is missing among financing options on offer today in the market?

**Whalen:** I am surprised there has not been a combined debt-tax equity alignment.

**Martin:** The tax equity investor should also be the lender?

**Whalen:** I am surprised nobody has married the two in some sort of combined offering. We end up in debates about forbearance agreements. I am surprised this hasn't been packaged better.

**Martin:** I have a feeling we will hear from people right after this panel because there are several tax equity investors who do both in the same deal.

**Whalen:** Sometimes two groups within the same institution are farther apart than separate institutions.

**Martin:** Spoken like a former banker. You know the inside story.

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## LS Power *(Continued from page 1)*

not return calls or respond to e-mail.

LS most recently completed a \$400 million financing backing its \$550 million, 127 MW Arlington Valley Solar Energy II Project in Arlington, Ariz., with **Banco Santander** leading the bank tranche and **Prudential Financial** overseeing a bond component ([PI 2/10](#)). **GE Energy Financial Services** took a \$100 million stake in the project ([PI, 3/1](#)). **Citigroup**, **Credit Suisse**, **ING** and **Morgan Stanley** led \$300 million of non-recourse financing for a gas-fired project in Deptford Township, N.J. ([PI, 12/7/2011](#)).

The sponsor is generally popular in banking circles, says a financier, adding it keeps bankers busy with deals. "There's always something coming down the pike," he says.

Bank and Prudential officials and spokespeople either declined to comment or did not return calls. Construction of the Arlington Valley project is underway and will be operational in 2013, selling its entire output to SDG&E pursuant to a 25-year power sales agreement.

—**Nicholas Stone & Sara Rosner**

### FAST FACT

LS most recently completed a \$400 million financing backing its \$550 million, 127 MW Arlington Valley Solar Energy II Project in Arlington, Ariz., with **Banco Santander** and **Prudential Financial**.

## Distressed Players *(Continued from page 1)*

The notes were quoted at \$0.52/\$0.55 cents on the dollar July 11 after spending the early part of the month in the \$0.40-\$0.45 range, says one investment manager, who was surprised to see the quote move above the mid-40s given the challenges the plants face.

Insurance companies have been the primary bondholders; with the most recent listing at the end of March putting **Northwestern Mutual** and **MetLife** as the top two. Other life insurance companies rounded out the top five, but one official familiar with the assets says in the meantime secondary trading has shaken up the list.

Some prospective investors have chosen not to take a slice of the debt because the uncertainty about future production. "I don't really know how to go after a distressed geothermal project," says an investment manager who has scouted the asset, but ultimately shied away.

Coso has one of its two yearly debt service obligation payments due this month and may need to draw on one of its two letters of credit to make the payment, rating analysts say. If so, that raises the question of whether it will have the cash on hand or room on its LOC to make a larger payment in January, says one. If the plants have cash to pay the debt service then the issue becomes whether the credit facilities can be extended, industry officials say, noting that lenders may be hesitant to extend additional credit to plants that have not generated their projected amount of power. Coso could be at the point of default if the facilities are not extended or replaced, according to a recent **Fitch Ratings** report. Industry officials directed inquiries about the size of the January payment and the LOCs to Terra-Gen

officials in New York who did not respond to e-mail inquiries.

The plants are contracted with **Southern California Edison** through January 2030 but have been producing less power than what is contracted.

The interest in the debt does not surprise one banker who compares geothermal investing to hotels: sometimes it's the second or third round of investors that come out the winner. While geothermal is a baseload resource with technology widely understood, the reliance on the resource in the wells makes it risky, says **Andrew Joynt**, a Fitch analyst.

Beyond the immediate concerns over the debt service payments, Coso has to manage hurdles on the horizon including conditions on its water permit that restrict production if its water reservoirs fall below a certain level as well as changes to short run avoid cost, or SRAC, pricing under the PPAs in the coming years.

A MetLife official did not return a call.

—**Holly Fletcher**

## Iberdrola Puts *(Continued from page 1)*

Before tagging JPMorgan and Blackstone as the advisors the company had considered various options about what to sell, including about two dozen assets most of which are online, says a banker.

The Portland, Ore.-based development shop owned 48 wind assets as of last month, according to its Web site. The fleet is spread coast to coast with clusters along the Columbia River on the Washington and Oregon border and along the Minnesota and Iowa border.

**Iberdrola**, the Madrid-based parent, is driving the process as a way to raise money for other initiatives. It is not selling up completely and intends to maintain a U.S. business. A spokeswoman was not immediately available for comment.

A JPMorgan spokeswoman declined to comment while a Blackstone spokesman in New York was not reached.

—**Holly Fletcher**

## ONE YEAR AGO

**Enova Energy Group** had reached out to lenders about financing a 37.5 MW biomass project in Plainfield, Conn., that it was in the process of acquiring. [The company landed \$125 million in debt from the **Carlyle Group**'s new mezzanine fund after the original lead lender, **Société Générale**, exited the deal in late 2011 ([PI, 1/9](#)).]

## FIVE YEARS AGO

**RES Americas**, through then president **Craig Mataczynski**, announced that it was going to change tack and keep its wind projects, contradicting its reputation as a turnkey constructor. It cited attractive returns on the strategic equity side in the U.S. as the main reason for the decision. [Mataczynski has since jumped to geothermal developer **Gradient Resources** and RES is talking with prospective buyers about selling a couple of wind projects in the Midwest as it looks to shift to a primarily EPC model (see story, page 8).]